

General Information Letter: Computation of credit for taxes paid to Wisconsin explained.

June 6, 2005

Dear:

This is in response to your facsimile transmission to Lori Best dated May 19, 2005, in which you request an explanation of the computation of the amount of income subject to tax by both Illinois and Wisconsin for purposes of computing the credit allowed to your client for taxes paid to Wisconsin. The nature of your request and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), which may be found on the Department's web site at [www.revenue.state.il.us](http://www.revenue.state.il.us).

### **Response**

86 Ill. Admin. Code Section 100.2197(b)(4) provides guidance for computing the amount of income that is subject to tax by both Illinois and by another state. Basically, that regulation states that this "double-taxed income" is equal to the sum of all items of income taxed by both states, minus all deductions allowed by both states. 86 Ill. Admin. Code Section 100.2197(b)(4)(G) provides:

Some states compute the tax liability of a nonresident by first computing the tax on all income of the nonresident from whatever source derived, and then multiplying the resulting amount by a percentage equal to in-state sources of income divided by total sources of income or by allowing a credit based on the percentage of total income from sources outside the state. Other states determine the tax base of a nonresident by computing the tax base as if the person were a resident and multiplying the result by the percentage equal to in-state sources of income divided by total sources of income. The use of either of these methods of computing tax does not mean that income from all sources is included in double-taxed income. See *Comptroller of the Treasury v. Hickey*, 114 Md. App. 388, 689 A.2d 1316 (1997); *Chin v. Director, Division of Taxation*, 14 N.J. Tax 304 (T.C. N.J. 1994). When a state uses either of these methods of computation, double-taxed income shall be the base income of the taxpayer from all sources subject to tax in that state, as computed in accordance with the rest of this subsection (b)(4), multiplied by the percentage of income from sources in that state, as computed under that state's law; provided, however, that no compensation paid in Illinois under IITA Section 304(a)(2)(B) shall be treated as income from sources in that state in computing such percentage.

This is the method used to compute income that is taxed by both Illinois and Wisconsin.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of Section 1200.110(b). If you have any further questions, you may contact me at (217) 782-7055.

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Sincerely,

Paul S. Caselton  
Deputy General Counsel – Income Tax